

MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

August 18, 1998

The Capital Projects and Bond Oversight Committee met on Tuesday, August 18, 1998, at 1:00 PM, in Room 129 of the Capitol Annex. Representative Robert Damron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Robert Damron, Chairman; Senator Robert Leeper, Vice Chairman; Senators Tom Buford and Denny Nunnelle; and Representatives Paul Marcotte and Jim Wayne.

Guests: Representative Gippy Graham; Representative Marshall Long; Ron Carson, Earle Clemmons, Bill Hintze, Joe Lancaster, and Paula Moore-Carson, Governor's Office for Policy and Management; Secretary John McCarty, Commissioner Armond Russ, Jim Abbott, Rex Hunt, and Jim True, Finance and Administration Cabinet; Don Mullis, Bart Hardin, Kim Link, and Paul Ruby, Office of Financial Management and Economic Analysis; Sherron Jackson, Council on Postsecondary Education; Mary Allen and Ken Clevidence, University of Kentucky; Dr. Robert Tarvin, School Facilities Construction Commission; Mayor Bill May and Ken Thompson, City of Frankfort; Melanie Bailey, Natural Resources and Environmental Protection Cabinet; Jim Owens, Department of Fish and Wildlife Resources; Arch Hamilton, Omar Heath, and Jan Jasper, Superfund, Division of Waste Management; Don Wainscott, Transportation Cabinet; R.M. Burnett, Spencer County Board of Education; Rebecca Barnes, Kim Burch, Joyce Honaker, Dan Risch, and Nancy Osborne, LRC.

LRC Staff: Mary Lynn Collins, Pat Ingram, Lou Pierce, Jack Affeldt, and Shawn Bowen.

1998; correspondence from Corrections Commissioner Doug Sapp providing additional information requested by Chairman Damron on the proposed super-maximum security prison unit; and correspondence from Parks Commissioner Kenny Rapier regarding the Parks Capital Maintenance and Renovation Fund.

Chairman Damron said the first item on the agenda was Committee elections. He asked Ms. Mary Lynn Collins, Committee Staff Administrator, to chair the election process. Ms. Collins said KRS 45.790 calls for members of the Capital Projects and Bond Oversight Committee to serve two-year terms once appointments are made. The members are then to elect a chairman to serve a two-year term. Ms. Collins opened the floor for nominations for Committee chairman.

Representative Marcotte nominated Representative Damron to serve as Committee chairman. The nomination was seconded by Representative Wayne.

Representative Marcotte made a motion that the nominations be closed and that Representative Damron be re-elected as Committee chairman by acclamation. The motion was seconded by Representative Wayne and passed by voice vote. Ms. Collins turned the meeting back over to Chairman Damron.

Chairman Damron said the Committee would also elect a vice chairman, and opened the floor for nominations. Senator Nunnelley nominated Senator Leeper to serve as Committee vice chairman. The nomination was seconded by Representative Wayne.

Senator Nunnelley made a motion that the nominations be closed and that Senator Leeper be re-elected vice chairman by acclamation. The motion was seconded by Representative Wayne and passed by voice vote.

Chairman Damron said several months ago the Committee received a letter from Representative Fred Nesler, Chairman of the Capital Planning Advisory Board (CPAB), encouraging the Committee to review the long-range plan for leased office space in Frankfort being developed by the Finance and Administration Cabinet. He then introduced Finance Secretary John McCarty and Mr. Bill Hintze, CPAB Vice Chair, to discuss the plan.

moving forward with the Cabinet's space management goals. The Cabinet's long-range plan also involves creating a better balance between state-owned and leased space; housing employees in safer, better, more business-like environments than many are in now; and consolidating space for Cabinets that are spread throughout the county. The plan calls for the state to proceed in a very systematic way, beginning now to correct the imbalance between the amount of leased and owned office space, to address new facility needs, and to renovate state-owned facilities.

Mr. Hintze said the CPAB, made up of representatives of all three branches of government, is unique in the nation in the way it is composed and in the way it proceeds, and is complimentary to the role of the Capital Projects and Bond Oversight Committee.

Finance Secretary John McCarty began his presentation by giving an overview of the development of the long-range plan for state offices in Frankfort. He said once the Cabinet developed a preliminary plan, a consulting firm, Fantus Consulting, was hired to review it and compare the plan to programs in other states. Secretary McCarty said Fantus verified the Cabinet's original analysis and recommended that the amount of state-leased space in Frankfort be reduced by approximately one-half. He said out of this study effort, a new office building for the Transportation Cabinet was proposed; it was funded by the 1998 General Assembly.

Secretary McCarty said the Finance Cabinet is considering three locations for the new building: a downtown site on Mero Street near the State Office Building; a site near the periphery of downtown on Holmes Street; and on state-owned property on the East-West Connector near the Central Lab. The East-West Connector site, referred to as the Carpenter Farm, consists of two parcels of land: one parcel is owned by the state, and the other parcel the state has an option to buy from the city. Secretary McCarty explained that the downtown sites are being considered because it makes good business sense to redevelop areas and use existing investments in infrastructure; it is also consistent with Governor Patton's Renaissance Kentucky Program, which calls for locating government buildings in central business districts throughout the state where possible.

Secretary McCarty said the Cabinet is evaluating the three potential building sites not only in terms of availability, but also in terms of geotechnical characteristics, potential environmental concerns, and cost. He said the decision on where to construct

building by collaborating with city and county officials, as well as with the business community, to ensure development activities have a long-term positive beneficial impact on Frankfort.

Secretary McCarty said the Cabinet is also looking at some of the challenges and opportunities associated with siting the new Kentucky Higher Education Assistance Authority (KHEAA) building, also authorized by the 1998 General Assembly. Sites off the East-West Connector, as well as downtown, are being considered. He said the Administration's preference is to locate the KHEAA building downtown where the infrastructure is already in place, although parking could pose a problem. A decision should be made on the KHEAA building within the next six to nine months.

In response to a question from Chairman Damron, Secretary McCarty said once the new Transportation building is ready, the current State Office Building will be renovated and used to house other state agencies so another state-owned building can be renovated.

Representative Marcotte, referring to a February 25 article in the Frankfort *State-Journal*, asked if it will cost the state an extra \$12 million to construct the new Transportation building in downtown Frankfort, as opposed to the suburban location. Secretary McCarty said at this point, the only difference in cost he could see between a downtown location and a suburban location is land costs, which would not be a \$12 million difference. He said the suburban site would probably not need a parking structure, whereas the downtown site might.

Representative Wayne said when projects are placed in suburban areas, services to the new section of town have to be expanded, and often times are much more inefficient than they would be if the projects were located in a core urban area. He asked if the intangible costs associated with the new Transportation building will be factored into the site decision. Secretary McCarty responded that intangible factors are much more difficult to quantify, but the final decision should not be based purely on what is quantifiable.

Representative Wayne said the decision where to build should also be based on the quality of life for the workers and suggested a site in a core urban area close to

for remediation; and traffic flow studies. Chairman Damron said he appreciated the Finance Cabinet conducting traffic flow studies to determine how increased traffic will impact surrounding neighborhoods.

In response to another question from Chairman Damron, Secretary McCarty said the traffic impact analysis, due to be completed in early December, will be a big factor in where to site the building. He said he hoped the decision will be finalized within 60 days of receiving the results of the traffic impact analysis report.

Chairman Damron said preliminary discussions regarding a new office building centered on developing a campus-type facility where a number of agencies would be located within fairly close proximity to each other. He asked if the Finance Cabinet, when developing its long-range plan, had any discussions with officials of the judicial and/or legislative branches regarding their office space needs. Secretary McCarty responded that as part of the overall plan, the Finance Cabinet is considering certain agencies they know need to be relocated; however, he said he did not know if there have been any formal discussions with the Legislative Research Commission, the Administrative Office of the Courts, or any constitutional offices about their space requirements.

Representative Wayne asked if the ongoing traffic study is taking into account alternative means of transportation such as trolley systems, light rail, park and ride, or bike paths. Secretary McCarty said those alternatives are probably not being considered, although they should, and agreed to check into the matter.

Chairman Damron recognized Representative Gippy Graham, Representative Marshall Long, and Frankfort Mayor Bill May, who were in attendance at the meeting.

Representative Long thanked Secretary McCarty and his staff for working with local community leaders on this project. He said if a downtown site is selected and it becomes necessary to build a parking garage, it may be several years away, since the existing State Office Building's parking lot will be available for use while the building is being renovated. Representative Long said he and Representative Graham both encouraged the Cabinet to study all possible building sites.

Frankfort Mayor Bill May said he was impressed with the Administration's

Senator Leeper commented that while the Cabinet is looking for a building site, they should also take into consideration the convenience of citizens doing business with the state in the proposed building.

Chairman Damron said he realized it is a difficult decision as to where to site the building, and applauded the Administration's efforts to work with local government to finalize a decision.

Chairman Damron introduced Commissioner Armond Russ, Finance and Administration Cabinet, and Mr. Jim Abbott, Director, Division of Real Properties. Commissioner Russ said the Fantus Study recommended the state cut its leased office space in half and build between 750,000 – 1,000,000 sq. ft. of office space over the course of the next several biennia. At the same time Fantus Consulting made its recommendations, he said the Finance Cabinet was also struggling with a project to renovate the existing State Office Building while employees continued to work in the building. Commissioner Russ explained that the Cabinet ultimately decided to delay renovation of the State Office Building until the new Transportation building is ready, and staff from the current State Office Building have moved into it.

Commissioner Russ said the new Transportation building will provide an additional 420,000 sq. ft. of office space; the new KHEAA building calls for an additional 75,000 sq. ft. of office space; and the Public Service Commission is building a 50,000 sq. ft. building. He said the next building proposed for construction will probably be a 300,000 sq. ft. building for the Natural Resources and Environmental Protection Cabinet, which is currently scattered in several locations throughout Frankfort. Once this proposed construction is complete, the state will be within the recommended level of government-owned office space recommended by the Fantus Study. Commissioner Russ said other major state-owned office buildings in Frankfort needing renovation include the Capital Plaza Tower Building, the Cabinet for Human Resources Complex, and the Capitol Building.

Chairman Damron thanked Secretary McCarty and his staff for the presentation and called on Mr. Ken Clevidence, Director, Capital Project Management Division for the University of Kentucky (UK) to discuss the next project, a privately funded scene

Mr. Clevidence said the Sigma Alpha Epsilon Fraternity House is well under construction and most of the project has been bid. However, there are some additional design changes needed and the University is requesting a scope increase of \$250,000 to pay for the changes. The scope increase will be funded with private funds and a schedule for receipt of the private funds has been arranged. Mr. Clevidence said the fraternity house should be complete in late February or early March 1999.

In response to a question from Representative Wayne, Mr. Clevidence said the total cost of the building is \$6,100,000, and will be paid with private funds, with the exception of \$250,000 the University provided for site work. The building will be owned by the University after completion.

Senator Leeper asked why the building costs, \$210 per sq. ft., were so high. Mr. Clevidence responded it is a considerable and exceptional building; an alumni committee made most of the design and material decisions for the fraternity house.

Senator Leeper asked if it is customary for a fraternity house to be owned by a University. Mr. Clevidence said it is not unusual for the University to take possession after a fraternity house is constructed. He explained that most of UK's fraternity and sorority houses were built during the late 1950s and in the early 1960s with private funds, and after construction, the buildings were given to the University.

In response to questions from Senator Leeper, Mr. Clevidence said the University wants to own the fraternity house because UK is committed to a Greek community on campus. He explained that there have been rumors around the University that because of the new no-alcohol policy on campus, UK is no longer receptive to having a Greek community on campus. He added that the building is constructed on University land, and for a \$250,000 investment, UK is getting a \$6 million building. Mr. Clevidence said the building maintenance costs will be funded by the University through a housing and dining fund that all members of the fraternity pay into, as do all other students in University housing.

In response to a question from Chairman Damron, Mr. Clevidence said the building will house 52 fraternity members and one house director.

The first project Mr. Hintze discussed was for the Natural Resources and Environmental Protection Cabinet (NREPC). Mr. Hintze said this project, the purchase of radioactive waste monitoring equipment for the Maxey Flats Nuclear Waste Disposal Site in Fleming County, was authorized by the 1998 General Assembly for \$191,000.

Mr. Hintze said NREPC originally planned to purchase a hard wiring system to monitor the site, but the U.S. Geological Survey recommended a wireless remote monitoring system in order to minimize human exposure to radioactive materials. The U.S. Geological Survey has agreed to furnish an additional \$191,000 in matching funds to pay for the system.

Senator Leeper made a motion to approve the federally-funded scope increase for the Maxey Flats Remote Monitoring System. The motion was seconded by Representative Wayne and passed by voice vote. The revised project scope is \$382,000.

Next, Mr. Hintze discussed a request by the Transportation Cabinet. He said the 1996 General Assembly authorized the Transportation Cabinet to purchase a spectrometer for \$169,000, which is a piece of equipment used to test and breakdown chemical compositions of materials. The Cabinet is ready to purchase the spectrometer, and reports a cost overrun on the equipment of \$15,500. They are requesting \$15,500 from the Highway Construction Contingency Account to cover the increased cost.

Representative Wayne made a motion to approve the \$15,500 allocation from the Highway Construction Contingency Account for the Transportation Cabinet's spectrometer purchase. The motion was seconded by Senator Leeper and passed by voice vote. The new project scope is \$184,500.

Mr. Hintze then reported on a land purchase in Owen County for the Department of Fish and Wildlife Resources. The land, known as the Schell Property, will be paid for with funds from the Department's FY 1997 and FY 1998 Land Acquisition Pools and consists of 1,567.75 acres. The purchase price is \$940,650 (\$600 per acre) and the cost of appraisals was \$3,600.

Chairman Damron said this item did not require action from the Committee.

Regular Session when moneys were first appropriated for statewide deferred maintenance.

Mr. Hintze said that the 1998 Executive Budget directed a portion of excess surplus bond proceeds to the Statewide Deferred Maintenance Account. In addition, he said that budget language requires reserving some money for the General Fund since anticipated excess surplus bond proceeds were used to balance the General Fund during deliberations of the Session. Mr. Hintze reported that the Office of Financial Management and Economic Analysis (OFMEA) recently identified \$3,247,059 in excess bond proceeds and a decision was made to do the following: (1) \$247,059 was transferred to the Statewide Deferred Maintenance Account; (2) \$1.5 million was deposited to the General Fund for use in the current fiscal year (FY 1999); and (3) \$1.5 million is "reserved" for use in the General Fund next year (FY 2000). Mr. Hintze said, however, if later this year the Governor's Office for Policy and Management and OFMEA, jointly, determine that there will be more surplus funds, they will consider moving some of the \$1.5 million now in reserve to the Statewide Deferred Maintenance Account. He said they have taken the actions outlined to assure that the budget is balanced for the biennium, and acknowledged the action as conservative, but one they believed to be prudent.

Chairman Damron asked if it becomes clear that there will be additional money available to balance the budget next year, will the \$1.5 million now reserved for next year's General Fund go to the deferred maintenance account. Mr. Hintze responded that they would like to put all of the money into the deferred maintenance account, but it just depends on how big of a surplus they believe they will have. He said it is not an irreversible decision and once they have a better read on investments, hopefully they can reverse the decision to reserve the \$1.5 million in excess surplus bond proceeds and send all or part of those funds to the deferred maintenance account.

Chairman Damron said he was concerned that the \$1.5 million might be treated as "lapsed funds". Mr. Hintze said the first call on the funds is the General Fund, but if it is not needed there, the only other place it will go is to the deferred maintenance account.

Mr. Hintze next discussed the second item - an allocation of \$200,000 from the Statewide Deferred Maintenance Account to the Department of Education. He explained

and tank removal at the Kentucky School for the Blind; and (3) pool shower/restroom renovation, paved bus parking area, and HVAC repairs for the FFA Leadership Training Center.

In response to a question from Chairman Damron, Mr. Hintze said the Finance Cabinet will oversee the money allocated to the Department of Education.

Chairman Damron said the two Statewide Deferred Maintenance Account items did not require Committee action.

Chairman Damron introduced Mr. Jim Abbott, who reported on six state leases with square footage modifications. The six leases included: PR-1382, Lewis County, Cabinet for Families and Children – a lease modification adding 1,365 sq. ft. to provide office space for four additional employees; PR-2841, Anderson County, Cabinet for Families and Children – a lease modification adding 629 sq. ft. to provide office space for two additional staff and to meet program needs; PR-3841, Kenton County, Labor Cabinet – a lease modification involving an increase of 411 sq. ft. to provide office space for one employee; PR-4120, Pike County, Department of Public Advocacy – a lease modification involving an increase of 780 sq. ft. to provide office space for three additional staff; PR-4121, Franklin County, Revenue Cabinet – a lease modification involving an increase of 2,000 sq. ft. to accommodate eight employees and 150 file cabinets recently moved into the space; and PR-4124, Daviess County, Workforce Development Cabinet – a lease modification involving an increase of 349 sq. ft. to provide office space for two displaced employees.

Chairman Damron said no action was necessary for lease modifications of less than \$50,000.

Next, Mr. Abbott reported potential plans by the Workforce Development Cabinet in Elizabethtown to sell the state-owned building they currently occupy and lease additional office space in Hardin County. The Workforce Development Cabinet's current office building has ADA accessibility problems and other code problems, as well as limited space. Mr. Abbott said he received a request from the Workforce Development Cabinet about a year ago to vacate the building and secure additional leased space. At that time, the Division of Real Properties asked the Workforce Development Cabinet to

not to renovate the building was a good decision based on a number of problems with the building.

Next, Mr. Don Mullis, Executive Director, OFMEA, presented bond activity reports. Mr. Mullis discussed a new bond issue report for Kentucky Higher Education Student Loan Corporation (KHESLC) Revenue Bonds, 1998 Series A and B. The bonds are being issued to provide funds for student loans. The Series A bonds are taxable, with gross proceeds of \$81,750,000, and an estimated net interest rate of 5.64%. The Series B bonds are tax-exempt, with gross proceeds of \$43,250,000, and an estimated net interest rate of 3.8%. For both Series, the term is 30 years and the bond rating is Aaa by Moody's. The issue is a negotiated sale with Hawkins, Delafield & Wood serving as bond counsel; PaineWebber, Inc., as underwriter; Kreig, DeVault, Alexander & Capeheart as underwriter's counsel; and OFMEA as financial advisor.

Senator Nunnelley asked why the Series A bonds are taxable bonds. Mr. Mullis said KHESLC's funding needs exceeded the amount of private activity bond allocation (tax-exempt) the agency received for this year, and the only alternative they have is to borrow additional money on a taxable basis.

Representative Wayne made a motion to approve the bond issue for KHESLC. The motion was seconded by Senator Leeper and passed by voice vote.

Mr. Mullis then discussed two new conduit bond issues for the Kentucky Economic Development Finance Authority (KEDFA). The first bond issue, KEDFA Hospital Facilities Revenue Bonds for Catholic Healthcare Partners, 1998 Series A, is to be issued for \$23,600,000. Mr. Mullis said the bonds will refund a 1986 series of bonds issued by McCracken County for Lourdes Hospital, Inc., and will finance and refinance equipment for Sacred Heart Home in Louisville. The bond issue will be a variable rate issue with terms of 20-25 years, and is a negotiated sale with Bear, Stearns & Co., as underwriter; Peck, Shaffer & Williams as bond counsel; Squire, Sanders & Dempsey as underwriter's counsel; and Fifth Third Bank as trustee.

Senator Leeper made a motion to approve KEDFA Hospital Facilities Revenue Bonds for Catholic Healthcare Partners, 1998 Series A. The motion was seconded by Representative Wayne and passed by voice vote.

The second KEDFA bond issue Mr. Mullis discussed was Kentucky Economic Development Finance Authority (KEDFA) Hospital Facilities Refunding and Revenue Bonds, Series 1998A, Consolidated Health Systems, Inc., Hospital Project; and Series 1998B, Consolidated Health Systems, Inc., Office Building Project (Consolidated Health Systems is located in Floyd County).

Mr. Mullis said the proceeds from the Series A bonds, \$14,425,000, will be used to refinance outstanding 1991 and 1993 bonds and to purchase new equipment. The net interest cost is estimated to be 4.78% for a term of 15 years, compared to 7.5% for the original financing. For the Series 1998B bonds, \$2.5 million of the 1993 Medical Building Funding Corporation Flexible Term Taxable Notes will be refinanced. The Series B bonds will have approximate gross proceeds of \$2,420,000 and an estimated net interest cost of 5.75% for a term of 30 years.

For both Series of bonds the ratings are: Standard & Poor's – A; Moody's – A1; and Fitch – A+. The bond issue is a negotiated sale with Wyatt, Tarrent & Combs as bond counsel; Ross, Sinclair & Associates as financial advisor and underwriter; and Star Bank as trustee.

Senator Buford made a motion to approve KEDFA Hospital Facilities Refunding and Revenue Bonds, 1998 Series A & B, for Consolidated Health Systems, Inc. The motion was seconded by Representative Marcotte and passed by voice vote. Chairman Damron abstained from the vote, citing a possible conflict of interest.

Senator Leeper called on Mr. Mullis to report on eight new SFCC issues, none which required a tax increase: Casey Co. - \$2,165,000 to complete additions to a high school; Elliott Co. - \$2,935,000 to complete additions to an elementary school; Erlanger-Elsmere Ind. (Kenton Co.) - \$1,980,000 to complete additions and renovations to an elementary school; Greenup Co. - \$1,445,000 to refund 1991 bonds; Hardin Co. - \$15,810,000 to refund 1989, 1990, and 1991 bonds; McCracken Co. - \$3,505,000 to refund 1991 bonds; Menifee Co. - \$480,000 to complete the roof at an elementary school and complete Phase II improvements at a high school; and Spencer Co. - \$7,535,000 for construction of a new elementary school.

increase, and proceeds will be used for energy conservation improvements at one high school and one middle school.

Senator Leeper said no action was required on school bond issues that are 100% locally-funded.

Chairman Damron said enclosed in members' folders was the updated weekly and monthly debt issuance calendar; a certification made by Finance Secretary McCarty regarding the amount of Undesignated Fund Balance in the General Fund available for projects and initiatives authorized in Part X of House Bill 321; and a Capital Projects Newsletter.

Chairman Damron said the next meeting is scheduled for September 15, 1998, at 1:00 p.m. in Room 129 of the Capitol Annex.

With there being no further business, Senator Buford made a motion to adjourn the meeting. The motion was seconded and passed by voice vote. The meeting adjourned at 2:10 p.m.